

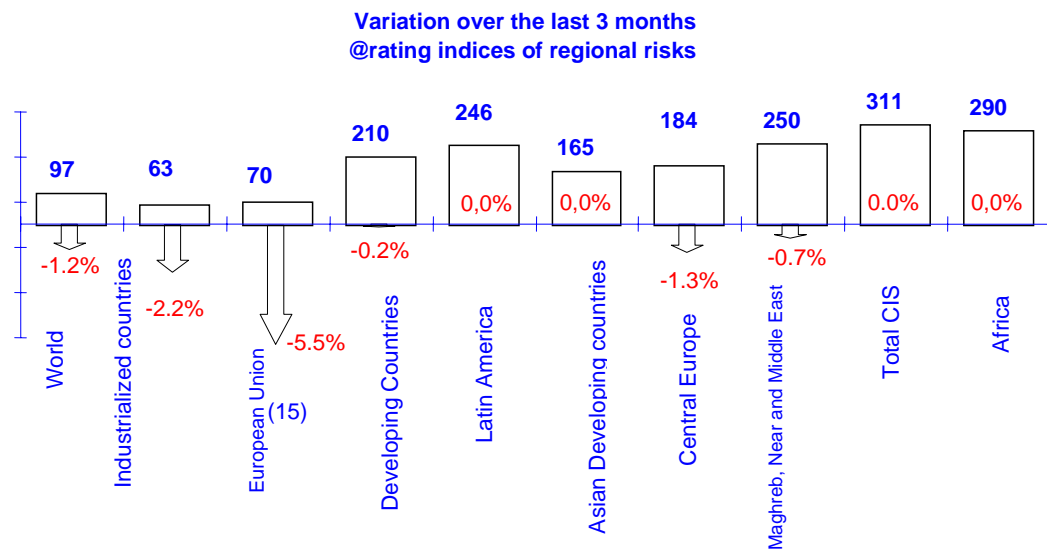
**PRESS RELEASE**

## Coface Country @ratings for Third Quarter 2006

Paris, October 10, 2006 - Coface has lifted the negative watch that had been placed on Italian companies. It has upgraded Slovenia's rating, and the ratings of Morocco and Tunisia have been placed on positive watchlist.

Coface has also announced a slight improvement in its world country risk index.

### Country Risk Trends



Base 100: world rating risk in 2000

### **ITALY: Company solvency levels improve as economy brightens.**

#### **Rating A2**

The second half of 2006 should confirm the moderate recovery seen in the first half, in light of the good economic environment, an increasing diversification of the economy and a satisfactory business climate. Exports in particular are being boosted by the strong European economy, despite the fact that they are still hampered by the competition from emerging countries and their lack of price competitiveness. Household consumption has shown timid growth, but the expected return of confidence linked to the more open political horizon, together with the generous salary agreements now in place, should speed things up.

Reinforced by this slightly brighter economic situation, the Coface payment incident index has returned to the levels seen before the steep decline of 2004. The frequency of payment incidents, however, is still well above the world average. The weakest sectors are leather, textiles, electronics (manufacturing, assembly and distribution), household electrical appliance, and the manufacture of metal parts and tubes.

Growth could see a slight drop in 2007. Despite a decline in unemployment, household spending will slow a little due to the budget squeeze required to offset the major deterioration in the public accounts. Exports should see moderate growth caused by increasing competitiveness.

## **SLOVENIA: Good management of the economy and a solid financial situation produce favorable results**

*Rating upgraded from A2 to A1*

Slovenia is enjoying steady economic growth of around 4% per year and domestic demand is dynamic. Household consumption in particular is being stimulated by the increase in both actual salaries and credit. Exports of goods and services remain relatively high (cars, transport, and tourism) and are helping to contain the imbalances in external accounts.

The country has been authorized to adopt the Euro on January 1, 2007, due to its control of inflation and cautious management of public finances. It has a high level of development, which essentially reflects the solid links forged over many years between local firms and companies in Western Europe. The exchange of merchandise and the transfer of technology have made numerous Slovene companies very competitive on an international scale. In this context, company solvency continues to be fair overall and the Coface payment incident index continues to be significantly below the world average.

Compared with the strengths of this economy, the weak points are few and far between:

- strong dependence on the international economic situation
- relative limitation of direct foreign investment net flows, thereby increasing the level of foreign debt
- privatization scheme is lagging behind schedule
- job market flexibility is progressing too slowly
- public expenditure is still not properly allocated

## **MOROCCO: Economic activities reflect growth and diversification**

*Rating A4, on positive watchlist*

Growth should reach 3% in 2006, mainly due to agriculture, services and public works. The textile sector is recovering and the tourist industry is performing well. The regular production of non-agricultural GDP highlights the increasing independence of the GDP in relation to rainfall levels. This economic situation is reflected in the Coface payment incident index, which, having previously shown a decline, has stabilized at a level close to the world average. The vigorous growth in public and private investments, aimed at diversifying the economic fabric and attracting activities with strong added value, should improve trading volumes in 2007 and beyond. This positive economic climate should facilitate a recovery in the public finances.

In spite of the shocks suffered in 2005 to the trade balance, the country's current account showed a surplus of 1.9% of the GDP, reflecting the positive balance generated by expatriate remittances and the tourist industry. This surplus should be maintained in 2006 and 2007, and help moderate foreign financing requirements, further reducing the weight of the foreign debt (the servicing of which will absorb less than 10% of currency revenues in 2006).

## **TUNISIA: Growth sustained in 2006 and company payment behavior improves** *A4 rating, on positive watchlist*

Supported by the services and agricultural sectors, growth should be over 5% in 2006. It could be maintained at this level in 2007 through domestic demand, which will stay dynamic. Private consumption and investment are being improved by the efforts made in the public sector to develop infrastructures, together with those made by companies to modernize their production plants.

The thriving economic environment is facilitating management of public finances, whose deficit should remain below 3% of the GDP, thereby reducing the weight of the public debt. Moreover, in 2005, the reduction of the trade deficit, brought about by the increase in exports and the healthy invisibles balance, caused the current account deficit to fall to 0.6% of the GDP. Maintaining the deficit at this level in 2006 and 2007 should help reduce foreign financing requirements, and bring the servicing of the debt down to 9% of exports.

As the economic slowdown seen in 2005 did not impact company solvency levels, the Coface payment incident index has gradually returned to the world average level. The financial situation of companies has in fact improved, in spite of the fierce competition faced by the textile sector.

### **General overview of country risk and Coface's forecasts**

The world country risk\* index has shown a slight improvement (+1.2%), owing to a reduction in the risks in the European Union (-5.5%). More sustained growth and better company solvency levels have brought about the changes to the ratings described above.

#### **Positive points**

The first nine months of the year have once again been marked by strong pressure on company margins, especially as a result of high prices raw materials prices (despite the recent fall in oil prices), the rise in interest rates and the persistently fierce competition. However, there has not been any grave deterioration in payments or in company solvency levels as a result of two factors.

⇒ An advantageous macro-economic environment due to world demand, which has been sustained.

⇒ Micro-economic adjustments made by companies over the last few years. The gains in productivity, sometimes resulting from major restructuring operations (such as in Japan or in Germany), have enabled high production costs to be offset.

#### **Causes for concern**

The financial turbulence seen in the spring served as a reminder that imbalances in world growth persist and can provoke brutal adjustments likely to impact company payment behavior. These adjustments could be all the more substantial as the recent period has been marked by exuberance in the stock and property markets combined with a strong partiality for emerging country risks.

⇒ In addition to the risks linked to the current account deficit of the United States, the property price trend is a major cause for concern. Considerable falls in the United States, the United Kingdom or

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\* The world country risk index is an average of the country @ratings weighted by the contribution made by each country to world production. The index benchmark is the average world risk level in 2000.

Spain would trigger a reduction in household consumption, which is the main growth engine in industrialized countries.

⇒ This sort of slowdown in demand would in turn incite a major plunge in raw material prices, thereby impacting the solvency levels of the emerging countries dependent on these raw materials.

⇒ A loss of confidence in emerging country risks could cause a rise in ‘spreads’ and have a negative impact on the currencies most exposed to the currency risk (i.e. the Hungarian forint, the Turkish lira and the South African rand). The uncertain political climates (protests in Hungary and a coup d’Etat in Thailand) serve as a reminder of how fragile these countries are.

⇒ Over-investment and an overheating of the economy in China could also generate a brutal slowdown, which would undoubtedly cause a chain of bankruptcies since margins are very tight.

If these risks do not materialize, the most probable hypothesis would be a soft landing in the growth currently enjoyed by the industrialized countries, including the United States, where overall company profitability remains fairly high. Moreover, the emerging countries, whose financial situation has improved, today seem to be in a better position to resist the shocks caused by growth (see Appendix I: “Principal Growth Forecasts”).

**Press contact:** Sue Hinton, Marketing Director, Coface North America

- Telephone: (212) 389-6484
- E-mail: [sue\\_hinton@coface.com](mailto:sue_hinton@coface.com)

### **About Coface**

Coface facilitates global business-to-business trade by offering its clients four product lines to fully or partly outsource trade relationship management and to finance and protect accounts receivable: trade receivable insurance, credit information and corporate ratings, receivables management and factoring. Serving 85,000 clients, Coface has a direct presence in 60 countries and can provide services in 93 countries via its CreditAlliance partner network, organized around an integrated credit risk management tool, the Common Risk System. Coface was founded in 1946 and is a subsidiary of Natexis Banques Populaires and Groupe Banque Populaire whose share capital (Tier 1) was 14.6 billion euros at the end of 2005. Coface is rated Aa3 by Moody’s, AA by Fitch and AA- by Standard & Poor’s. More information is available at [www.coface-usa.com](http://www.coface-usa.com).

**Appendix I**  
**Principal Growth Forecasts**

<b>COFACE</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
World production	2.0	2.8	4.1	3.6	4.0	<b>3.7</b>
<b>Industrialized countries</b>	1.3	1.9	3.1	2.5	2.9	<b>2.3</b>
United States	1.9	3	4.4	3.5	3.4	<b>2.7</b>
Japan	-0.3	1.4	2.6	2.7	2.5	<b>2.2</b>
<b>European Union 15</b>	1.1	0.9	2.1	1.5	2.5	<b>2.0</b>
Germany	0.1	-0.1	1	1.1	2.1	<b>1.2</b>
United Kingdom	1.8	2.2	3.1	1.9	2.7	<b>2.5</b>
France	1.1	0.5	2.2	1.2	2.2	<b>1.9</b>
Italy	0.4	0.4	1.1	0.1	1.6	<b>1.3</b>
<b>Emerging countries</b>	4.3	5.5	7.0	6.3	6.5	<b>6.3</b>
Emerging Asia	6.4	7.0	7.8	7.5	7.7	<b>7.4</b>
Latin America	0.3	1.8	5.7	4.2	4.6	<b>4.0</b>
Central Europe	3.0	4.1	5.5	4.5	5.5	<b>5.1</b>
CIS	5.2	7.6	7.9	6.6	6.7	<b>6.5</b>
Middle East (including Turkey)	3.6	6.1	7.1	6.1	5.6	<b>6.0</b>
Middle East (without Turkey)	2.8	6.4	5.6	5.7	5.6	<b>5.8</b>
Subsaharan Africa	3.5	4.2	5.1	6.0	5.	<b>7,5</b>
World trade	3.4	5.4	10.6	7.4	8.9	<b>7.6</b>

## Appendix II Country @rating Methodology

Coface Country @ratings for 154 countries are available for free and updated regularly at [www.coface-usa.com](http://www.coface-usa.com).

A Country @rating assigned by Coface reflects the average level of **short-term** non-payment risk associated with companies in a particular country. It reflects the extent to which a country's economic, financial and political outlook influences financial commitments of local companies. However, those involved in international trade know that sound companies can operate in risky countries and unsound companies in less-risky countries, realizing that overall risk will depend not only on a company's qualities but also on those of the country in which it operates. In assessing overall risk associated with a particular operation, Country @ratings are complementary to @rating Credit Opinions on companies.

### How ratings are assigned

Ratings are based on twofold expertise developed by Coface:

- ⇒ macroeconomic expertise in assessing country risk based on a series of macroeconomic indicators
- ⇒ microeconomic expertise that draws on a Coface database covering 50 million companies worldwide and 60 years of experience with payment incidents in trade flows it guarantees.

Country @ratings continuously monitor 154 countries through indicators grouped into seven categories and rates each one individually.

The seven risk families are:

- Growth vulnerability
- Foreign currency liquidity crisis
- External over indebtedness
- Sovereign financial vulnerability
- Banking sector fragilities
- Political and institutional instability
- Companies' payment behavior

Coface determines an overall rating for each of the 154 countries monitored. Like rating agencies, Coface ranks country ratings on seven risk levels:

A1: The steady political and economic environment has positive effects on an already good payment record of companies. Very weak default probability.

A2: Default probability is still weak even in the case when one country's political and economic environment or the payment record of companies is not as good as in A1-rated countries.

A3: Adverse political or economic circumstances may lead to a worsening payment record that is already lower than the previous categories, although the probability of a payment default is still low.

A4: An already patchy payment record could be further worsened by a deteriorating political and economic environment. Nevertheless, the probability of a default is still acceptable.

B: An unsteady political and economic environment is likely to affect further an already poor payment record.

C: A very unsteady political and economic environment could deteriorate an already bad payment record.

D: The high risk profile of a country's economic and political environment will further worsen a generally very bad payment record.